November 7, 2005

Mr. Robert H. Herz, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856

Dear Bob:

The Committee on Corporate Reporting of Financial Executives International and the Financial Reporting Committee of the Institute of Management Accountants ("the Committees") are writing to reiterate their views on the Financial Accounting Standards Board's (the "FASB" or the "Board") Exposure Drafts (the "Drafts" or "EDs") on Consolidated Financial Statements and Business Combinations (a revision of FASB Statement 141). CCR and FRC are each the financial reporting technical committee of their respective organizations. The Committees review and respond to research studies, statements, pronouncements, pending legislation, proposals and other documents issued by domestic and international agencies and organizations. This document represents the views of the Committees and not necessarily the views of FEI, IMA, or their individual members.

As we indicated in our letter dated March 21, 2005, the Committees strongly disagree with the conclusions in both of the EDs. We believe that the principles underlying the EDs represent a fundamental shift in the overall direction of accounting and financial reporting standards. We believe a more robust and collaborative due process is needed in order to determine whether such changes are responsive to financial statement user needs and whether the proposed accounting is capable of being understood and consistently applied by preparers.

We observe that the EDs propose a number of fundamental changes in the accounting model, including:

- Recognizing assets and liabilities for contingencies that are not probable of being realized or incurred and incorporating the uncertainty over whether cash will be realized or paid into the measurement.

- Marking to fair value certain types of contingencies and contingent consideration through earnings, post-acquisition.
• Using a "marketplace participants" approach to determine fair value of acquired assets and liabilities.

• Replacing the parent company view of the reporting entity with the economic unit view, with all of its attendant consequences for step transactions and financial statement display.

• Requiring transaction costs to be expensed and prohibiting recognition of liabilities for exit costs in purchase accounting.

We continue to believe that the implications of these proposals for the future shape of the financial reporting model are both profound and far-reaching. We also note that this project is directly affected by, and dependent on, two other projects on the Boards agenda: the Conceptual Framework and Performance Reporting. Once the proposed EDs are issued as final standards, extension of these principles to similar circumstances that occur outside of a business combination is inevitable. For example, the proposal to amend IAS 37, Provisions, Contingent Liabilities and Contingent Assets, and the FASB's related Invitation to Comment would extend the principles in the ED well beyond contingent assets and liabilities related to business combinations. Equally important, we envision it would be incredibly difficult to undo the effects of these standards if they fail to meet their objectives. It is therefore essential that rigorous and thorough procedures be followed to ensure that adoption of these principles will move accounting and financial reporting in a direction that improves financial reporting for users of financial statements.

In determining whether the proposed principles should be finalized, the Committees offer the following recommendations to the FASB:

(1) Sequence the research effort on related projects in a manner that assures completion of precedential matters before other projects that depend on those conclusions are finalized.

The FASB and the International Accounting Standards Board (the "Boards") are deliberating changes to their respective Conceptual Frameworks while simultaneously implementing the concepts they anticipate defining through principles included in specific standard setting projects. We believe it would be far better if the Conceptual Framework project was given the first priority as the Boards explore and define the relationship of these principles to the broader reporting model. In so doing, the Boards will have the opportunity to think through the full implications of the principles of the model on financial reporting and obtain and debate constituent views on what that new model will look like when carried to its logical conclusion.

If the Board continues to deal with the Conceptual Framework project concurrently with these EDs, in all likelihood these proposals will be finalized and potentially effective before the changes to the framework are even exposed for public comment. In our view, such an approach detracts significantly from the credibility of the Boards' due
process. In addition, should the results of this strategy go awry, there will be difficult questions to answer as to why these proposals were issued before the underlying concepts were thoroughly vetted and accepted.

Additionally, it goes without saying that remeasurement of contingent assets, liabilities and contingent consideration in earnings is not accommodated by our present reporting model for the statement of earnings. It does not seem useful to impute to management performance the successful resolution of a potential claim deemed to be remote. It is our belief that it is inappropriate to record the claim in the first place and therefore the subsequent reversal does not really represent a gain. The entire cycle from recognition through resolution might be best characterized as the inclusion of “what might have been” in the financial statements. Similarly, the resolution of contingent consideration at an amount that is higher or lower than the estimate recorded on the acquisition date is not a reflection of management performance. If the acquired business performs better than anticipated, earnings are reduced, while poor performance generates a gain. In our view, these types of phenomena generate earnings effects that don’t seem reasonable and that require a new approach to display in the statement of earnings. We believe constituents would be better served by the Board addressing this issue in its project on performance reporting before requiring this accounting for business combinations.

(2) Follow a thorough process in evaluating the utility of these fundamental principles to financial statement users.

Given how different these principles are from existing GAAP, we do not believe that utility of these changes to the diverse group of financial statement users can be assumed or taken for granted. We have previously requested that the Board reach beyond its routine due process procedures to ascertain the views of working analysts and portfolio managers. These constituents do not typically have time to read these voluminous and complex documents and write comment letters to the Board. They also do not typically participate in roundtable discussions where completing those two tasks is the price of admission to the event. That said, it would be inappropriate to equate silence with consent.

As a case in point, we are not aware of any user constituent groups that have asked for the Boards’ proposed change to the economic unit model. This approach is a construct of the FASB and does not appear to have a natural constituency in the user community. Moreover, recent evidence suggests that users will strongly resist such a wholesale change to financial statement presentation as detailed in the September 26th letter from the CFA Institute to the Boards regarding the “Joint IASB/FASB Conceptual Framework Project”. Another example is the Boards’ endorsement of a marketplace participants approach to fair value. Recent discussions with the FASB’s User Advisory Council suggest that users of financial statements were not aware of this major change and that some found the change to be illogical and counterintuitive. Those users
appeared to prefer an entity specific approach to fair value. We believe that these concerns should be addressed directly before the Board finalizes its Fair Value Measurements standards and incorporates those conclusions in the revised Business Combinations standard.

FEI and IMA believe that it is critically important that the Boards conduct focus group discussions with individuals who actually use financial statements on a daily basis in making investment decisions. The objective of these sessions would be to 1) educate financial statement users to ensure that they adequately understand what is being changed and why, 2) learn whether those users agree with the proposed accounting treatment, and 3) learn how the information provided would be used in making investment decisions. We are willing to provide assistance in identifying and reserving venues as well as requesting participation of large institutional investors and analysts. We strongly believe that these steps are both appropriate and necessary additions to the Boards' due process procedures. This recommendation is consistent with the recommendations of the Trustees in the recent revisions to the IASC Charter.

(3) Once final conclusions are reached, the Boards should schedule field visits to understand the impact of the proposed changes on preparers and auditors.

We recommend that the Boards meet with companies to understand the impact of the proposals, in an effort to ensure that they are capable of complying with the requirements of the standards. We are not recommending field tests, which consume significant amounts of staff and constituent time to conduct. Rather, we are proposing field visits like those conducted by the FASB in connection with the proposal to eliminate an exception to recording deferred taxes on unremitted earnings of foreign subsidiaries. We believe that these visits were not a major resource drain to conduct and provided valuable insight to the Board and Staff members on the consequences of such a change. Our recent experience with complex new standards suggests that this is an important final step in the process of issuing new guidance that changes longstanding accounting principles or practices.

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We have provided our detailed comments to the issues identified in the Notice to Recipients of this letter. Members of the FEI/IMA Business Combinations Working Group will be pleased to meet with the Board and Staff at its earliest convenience to discuss these issues in more depth and to clarify any comments contained herein.
Financial Accounting Standards Board

Sincerely,

Lawrence J. Salva
Chair, Committee on Corporate Reporting
Financial Executives International

cc: Sir David Tweedie, Chairman IASB

November 7, 2005
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Teri List
Chair, Financial Reporting Committee
Institute of Management Accountants
ISSUES FROM NOTICE TO RECIPIENTS ON BUSINESS COMBINATIONS, A REPLACEMENT OF FASB STATEMENT NO. 141

Objective, Definition, and Scope

Question 1—Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?

We believe the objective of measuring the acquiree as a whole, or the assets acquired and liabilities assumed, at fair value creates a significant number of issues, evidenced throughout the exposure draft, which will be addressed in responses to subsequent questions. While there is nothing inherently wrong with the definition of a business combination in paragraph 4, we believe the broadness of its scope will not be fully understood without adequate field visits to better understand the definition of a business. We believe there will be situations unnecessarily swept up in the business combination scope, forcing companies to apply these complex proposed rules to what would otherwise have been an asset acquisition.

Definition of a Business

Question 2—Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance?

We believe certain aspects of the definition of a business and the additional guidance are inappropriate for determining whether the assets acquired and liabilities assumed constitute a business. The guidance in paragraph A6 is particularly problematic. We believe the determination of whether the set of assets and activities is a business should not be based on whether it is capable of being conducted and managed by a hypothetical willing acquirer. Rather, we believe the determination should be based on the more relevant factor of the acquirer's intentions with respect to those assets and activities. We recognize that EITF 98-3, Determining Whether a Nonmonetary Transaction Involves Receipt of Productive Assets or of a Business contained a similar "capability concept" that appears to work with how the elements of a business are defined in that guidance. However, the concept doesn't seem to work as well with the broadened definitions of the three elements of a business from EITF 98-3 in the new proposed guidance. We believe this capability concept would expand the scope of what constitutes a business to an unrealistic level. We recommend deleting paragraph A6 entirely and similarly, eliminating the willing party discussion from paragraph A3.

We believe the guidance in paragraph A2 defining the three elements of a business should be included after paragraph 5 in the proposed standard, not within the application guidance, as this is rather important in determining whether you have a business combination. In addition, we question the purpose of including the phrase "... and proportionately" when referring to the other economic benefits a business would provide directly to owners, members, or participants, and recommend removing the phrase from paragraphs 3(d)(2) and A2.
We believe that the means by which an acquirer may obtain control should be limited to those articulated in paragraphs 6(d), 6(e) and 6(f). Paragraphs 6(g) and 6(h) appear in paragraph 54 in combination, not as separate means to achieve control, and it is unclear which was intended. Paragraph 6(i) and its examples seem unrealistic. We believe paragraphs 6(g)-6(i) and related paragraph 54 are inappropriate and should be deleted because obtaining control in a business combination should not be the result of such ambiguous, uncommon actions.

Measuring the Fair Value of the Acquiree

Question 3—In a business combination in which the acquirer holds less than 100 percent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognize 100 percent of the acquisition-date fair value of the acquiree, including 100 percent of the values of identifiable assets acquired, liabilities assumed, and goodwill, which would include the goodwill attributable to the noncontrolling interest? If not, what alternative do you propose and why?

We do not see the benefits of extrapolating a fair value related to the purchase of a portion of an entity to other portions that have not been purchased. As the standard acknowledges, the value of the consideration exchanged may be a poor indicator of the value of the interest not acquired. We are similarly reluctant to rely on the guidance in paragraphs A18 through A23, as these methods are likely to imbed significant measurement error into the estimated value of 100% of the entity.

Question 4—Do paragraphs A8–A26 provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?

We believe that the indirect measurement methods identified in paragraphs A20 to A23 are fraught with problems. Application of the market approach is difficult in these situations because there seldom is a “pure play” available that would serve as reasonable market proxy for the acquiree. There are typically differences between the acquiree and other marketplace participants that introduce measurement error, which will be magnified if that value is extrapolated in circumstances involving partial acquisitions. In a similar vein, there are significant measurement challenges in applying an income method in these circumstances. In discounted cash flow calculations, reliability of cash flow estimates will often decrease for a longer time horizon. Accordingly, “a perpetuity” is used for periods beyond the forecast horizon. The latter is typically the dominant part of the valuation and the most difficult to estimate and substantiate. We would also be concerned by the idea of extrapolating these values to the entity as a whole in a partial acquisition.

Question 5—Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer’s interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?

We believe that the acquisition-date fair value of consideration transferred will frequently provide the best evidence of fair value.
Question 6—Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

No. We believe that valuing and accounting for contingent consideration will be extremely difficult. As the Board is aware, contingent consideration is frequently the compromise solution that results from differences of opinion between buyer and seller regarding the value of a business. Accordingly, it is not intuitive that these arrangements should be presumed to be reliably measurable. Our view is that it is not feasible in many cases to determine a reliable fair value and that the Board should take that fact into consideration in determining the appropriate course of action. Retaining the present approach in FAS 141, Accounting for Business Combinations, would be responsive to this concern.

Question 7—Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

We do not agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree. We believe these costs are a component of the fair value of the business combination. The definition of fair value provided in the Board’s project summary is: “the amount at which an asset or liability could be exchanged (or settled) in a current transaction between knowledgeable, unrelated willing parties when neither is acting under compulsion.” For these transactions to be consummated, certain costs must be incurred by the acquirer. These costs are incurred solely to consummate the transaction. The costs do not represent losses to the acquirer in the period that they are incurred. These costs are necessary costs to bring the assets purchased to a state in which they can begin to be utilized. The fact that these costs are not paid directly to the seller does not justify the conclusion that such costs are not part of the fair value of the business combination.

Measuring and Recognizing the Assets Acquired and the Liabilities Assumed

Question 8—Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?

We have addressed this question to each of the respective topics lettered (a) through (d) below.

a. Receivables (including loans) acquired in a business combination would be measured at fair value. Therefore, the acquirer would not recognize a separate valuation allowance for uncollectible amounts as of the acquisition date.

We agree with the Board that receivables acquired in a business combination should be measured at fair value. However, we do not agree that the use of a valuation allowance should be prohibited when recording assets at their fair value. We believe that in certain situations a valuation allowance may be a practical way of recording assets, such as receivables, at their fair value. For large companies, with thousands of individual accounts, to expect that such amounts be written down to fair value is unrealistic and
complex. Most accounts receivable systems are based on the billing system. As invoices are generated and cash is received, such amounts are recorded in the accounts receivable ledger. From a practical standpoint companies will not adjust their billing systems to the estimated fair value because all of the transactions are based on the original invoice amount. A valuation allowance account which factors in the timing of future cash flows and uncertainty about collection allows companies to adjust accounts receivable to fair value. We acknowledge that this valuation account is not an allowance for uncollectible accounts and should not be presented as such in the financial statements. Any reserves for uncollectible accounts necessary after the acquisition date either due to subsequent billings or due to collectability issues on preacquisition receivables (resulting from events occurring after the acquisition date) would be recorded as an allowance for uncollectible accounts separate from the valuation account recorded at the acquisition date. We suggest that the final standard provide an example to illustrate these concepts. The example should include a valuation account that reduces accounts receivable to fair value at the acquisition date and the circumstances which result in the recording of an allowance for uncollectible accounts subsequent to the acquisition.

b. This Statement would amend FASB Statement No. 5, Accounting for Contingencies, to exclude from its scope assets or liabilities arising from contingencies acquired or assumed in a business combination. Assets and liabilities arising from contingencies that are acquired or assumed as part of a business combination would be measured and recognized at fair value at the acquisition date if the contingency meets the definition of an asset or a liability in FASB Concepts Statement No. 6, Elements of Financial Statements, even if it does not meet the recognition criteria in Statement 5. After initial recognition, contingencies would be accounted for in accordance with applicable generally accepted accounting principles, except for those that would be accounted for in accordance with Statement 5 if they were acquired or incurred in an event other than a business combination. Those contingencies would continue to be measured at fair value with changes in fair value recognized in income in each reporting period.

For the reasons set forth in our letter dated March 21, 2005 we do not agree that all contingent assets and liabilities should be recorded at their fair value as of the acquisition date. We expect that for some, valuing and accounting for contingent assets and liabilities will be possible but for others it will be extremely difficult and complex. In our previous letter we also expressed our concerns with the reliability of fair value measurements for non-financial assets and liabilities where no objective market information exists and there is significant uncertainty regarding the timing and method of disposal or settlement. We believe that users would be better served by a model for contingent assets and liabilities that requires recognition of the most likely outcome, with additional disclosure about the nature of significant contingencies and other potential outcomes.

c. Costs associated with restructuring or exit activities that do not meet the recognition criteria in FASB Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities, as of the acquisition date are not liabilities at the acquisition date.
Therefore, the acquirer would recognize those costs as expenses of the combined entity in the postcombination period in which they are incurred.

For the reasons set forth in our letter dated March 21, 2005 we believe a buyer’s assessment of the fair value of an acquired entity also includes costs that will be incurred to integrate the acquired business and achieve synergies. We believe a model that capitalizes such costs is consistent with the existing model for other assets (i.e., fixed assets), wherein the amount capitalized is equal to the amount paid to acquire and place the asset in service.

d. Particular research and development assets acquired in a business combination that previously were required to be written off in accordance with FASB Interpretation No. 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method, would be recognized and measured at fair value.

For the reasons set forth in our letter dated March 21, 2005 we do not agree that research and development acquired in a business combination should be recognized as an asset and measured at fair value. While we recognize that a major goal of the Board’s project is convergence with international standards, the proposed change will result in significant inconsistencies in the accounting for research and development (R&D) related costs under US GAAP. We question whether this is an area where the US GAAP accounting model will be improved by convergence in the short term. We believe that a more appropriate path to convergence is through a complete reconsideration of SFAS 2. We observe that many of the concerns that existed with the accounting for IPR&D were addressed with the issuance of the AICPA Practice Aid, Assets Acquired in a Business Combination to Be Used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries.

Question 9 – This Exposure Draft proposes limited exceptions to the fair value measurement principle. Therefore, some assets acquired and liabilities assumed (for example, those related to deferred taxes, assets held for sale, or employee benefits) would continue to be measured and recognized in accordance with other generally accepted accounting principles rather than at fair value. (See paragraphs 42–51 and paragraphs B143–B155.)

Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

We agree that the exceptions to the fair value measurement principles are appropriate for the reasons cited by the Board including the cost-benefit and practicability concerns and the inconsistencies created subsequent to the acquisition date when these exceptions are covered by other GAAP. Specifically, the Board stated in paragraph B144 that “primarily because of cost-benefit or practicability concerns, the Board decided to allow particular exceptions to the application of this Statement’s fair value measurement principle.” In the same way the Board came to this conclusion on deferred taxes, assets held for sale, and employee benefits, we believe that same conclusion should be applied to certain contingent assets and liabilities and research and development costs acquired in a business combination as discussed in our responses to Question 8 and in our March 21, 2005 letter. We find no compelling reasons why the Board
concluded on these exceptions but failed to come to the same conclusion on these others, which have similar characteristics.

Additional Guidance for Applying the Acquisition Method to Particular Types of Business Combinations

Question IO—Is it appropriate for the acquirer to recognize in income any gain or loss on previously acquired noncontrolling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?

We do not agree with allowing a company to record a gain based on a purchase transaction as this is fundamentally inconsistent with the concept of realization that governs existing revenue and gain recognition rules. We believe the approach of permitting gain or loss recognition on previously held noncontrolling equity investments when the investor obtains control of the investee will produce counterintuitive and confusing accounting results that will reduce the usefulness and clarity of consolidated financial statements. As an example, assume Company A owns 49% of Company B and accounts for that investment using the equity method of accounting. It seems inappropriate to us that Company A would recognize a gain or loss on its 49% stake in Company B if Company A were to acquire an incremental 2% resulting in Company A obtaining control in Company B based on a purchase consideration that undoubtedly includes in it a control premium. This becomes even more concerning in instances where control is achieved through means other than where consideration exchanges hands (i.e., where control is obtained from an investor relinquishing its shareholder rights in the investee). We question how the proposed model would be applied in those instances.

We believe that the changes that result from application of the Economic Unit model, including requiring gain or loss recognition on previously held noncontrolling equity interests once an investor obtains control of the investee, would require significant education of financial statement users to ensure that they adequately understand what is being changed and why. In addition, we question the specific practice issues the proposed change in display is fixing, since on the surface it doesn’t appear to be advancing the ball in the area of presentation and disclosure. We believe that if the Board continues down the current path with the Economic Unit model, there will be a substantial number of implementation issues that will need to be addressed, as well as education of the user community as to the fundamental differences between the Board’s proposed model and the current model. We believe that application of the Parent Company model to account for business combinations, which has been a foundation of accounting practice, has served both users and preparers satisfactorily and has not resulted in significant practice issues.

Question II—Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer’s interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?

We do not agree with the Board’s conclusion that any excess of the fair value of the interest acquired over the consideration paid should first serve to reduce any goodwill generated by the acquisition, with any remaining excess recognized immediately in income as a gain on the acquisition. As stated previously, we do not agree with allowing a company to record a gain based on a purchase transaction, as this is fundamentally inconsistent with the concept of
realization that governs existing revenue and gain recognition rules. We would support a model that is consistent with the current model in which any excess first serves to reduce on a pro rata basis the amounts that otherwise would have been allocated to certain assets acquired. We believe this model is more consistent with the accounting for a single asset purchase. For example, if Company A acquires an asset for $300; however, the fair value of that asset is $500. Company A would record the acquired asset at $300, the amount of the consideration exchanged for the asset, which effectively results in reducing the fair value of the acquired asset by the discount realized in the bargain purchase of that asset.

**Question 12—Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?**

While we agree that there are circumstances where an acquirer may overpay to acquire a business, we agree with the Board’s conclusion that the amount of the overpayment would not be able to be reliably measured at the acquisition date, as acquisition consideration oftentimes also includes assumed operational synergies that are expected to be realized from the acquisition, which also are difficult to reliably measure.

**Measurement Period**

**Question 13—Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?**

While we believe the guidance in paragraphs A71-A76 is helpful for determining what would constitute a measurement period adjustment, we do not agree that comparative information for prior periods should be adjusted for the effects of measurement period adjustments. We believe adjustments to provisional amounts should be recognized as they are identified during the measurement period with footnote disclosure only for any material adjustments, consistent with SFAS 141 paragraph 51(h).

We strongly disagree with the Board’s conclusion in paragraph B167 that the benefits to users outweigh the cost of retrospective adjustments to financial statements. The costs associated with adjusting previously issued financial statements far outweigh a footnote disclosure that can achieve the same objective for users.

**Assessing What Is Part of the Exchange for the Acquiree**

**Question 14—Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?**

We believe the application guidance provided in paragraphs A89-A97 and A102-A109 is unnecessarily complex, confusing and not helpful in applying the guidance/principles in paragraphs 69 and 70. We believe the determination of what is part of the exchange cannot be solely determined from the acquirer’s perspective. The acquiree knows what it gave up because it has accounting entries to make also. The acquirer knows what it acquired through the negotiations and valuation process before consummating the transaction. The issue really
becomes what values are assigned to the assets acquired and liabilities assumed when the acquirer records the transaction. We fundamentally disagree with recognizing a gain or loss on pre-existing relationships and the effective settlement of supply contracts (examples 12-14).

We believe the application guidance in paragraphs A87-A88 and A98-A101 is sufficient for understanding how to apply paragraphs 69 and 70.

Disclosures

Question 15—Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?

We generally disagree with the extensive minimum disclosure requirements. Beginning with the first objective (paragraph 71), we believe the disclosures should relate only to business combinations that have occurred during the period covered by the financial statements. Any business combination completed after the balance sheet date but prior to the financial statements being issued should be covered by subsequent event disclosure requirements, especially considering the shortened financial statement filing deadlines for public companies.

We believe the disclosure requirements in paragraphs 72(f) should be modified to not require detail by class of consideration and 72(i) should be deleted. There must be appropriate balance between transparency in financial reporting and making every element of a business transaction a matter of public record. We believe these proposed disclosures are excessive.

We believe the disclosure requirements in paragraph 72(j) through 72(l) should be deleted, consistent with our disagreement with the proposed accounting that would generate the underlying gains and losses.

We are concerned by the requirement in paragraph 73(b) to fully disclose the details of a business combination that would otherwise qualify as a subsequent event, unless it is impracticable. Deleting the proposed disclosure requirement and applying subsequent event disclosure requirements to these situations is a more operational approach that would acknowledge that the business combination is not reflected in the financial statements being issued and compliance with the disclosure requirements of paragraph 72 on such short notice would be impracticable, with rare exception.

The disclosure requirements in paragraph 74(b) were modified from the requirements in paragraph 54 of SFAS 141 in a way that we believe is more relevant if the pooling of interests concept (that was eliminated by SFAS 141) had been applied to the business combination versus acquisition accounting. Additionally, it presumes a level of reliable financial information to support an audited footnote disclosure that we believe rarely exists, except in the case of acquiring a stand-alone entity.

The objective in paragraph 75 should be modified to exclude disclosure of the effects of adjustments in the current reporting period for business combinations that were effected in the
current reporting period. As such, paragraph 76(a)(3) should be modified to apply only to business combinations effected in a prior period. Paragraph 76(d) should be deleted entirely.

We believe the requirement in paragraph 79(b) to provide goodwill related disclosures for a material business combination that is not yet reflected in the accompanying financial statements is inappropriate and should be deleted, rather than be subject to a practicality exception.

The disclosure requirement in paragraph 80 is redundant to SFAS 142 paragraph 45(c) and should be deleted to avoid misunderstanding.

The IASB’s and the FASB’s Convergence Decisions

Question 16—Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognized separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises from legal or contractual rights and has both of the following characteristics:

a. The intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in combination with a related contract, asset, or liability
b. Cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

We do not believe that intangibles that meet the FAS 141 definition can always be measured with sufficient reliability. Frequently, the only way these assets can be measured is using an “income approach”, which derives the value by deduction rather than by direct measurement. Existing practice under this standard provides ample evidence that these do not provide accurate measures of fair value. However, because the Statement does not have a reliability exception, companies would have no choice but to record these values. In addition, application of the marketplace participants approach to fair value will exacerbate the problem (see our comments in the cover letter).

Question 17—Do you agree that any changes in acquirer’s deferred tax benefits that become recognizable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?

We believe that this issue is tied together conceptually with the treatment of other items that the Board has deemed to not be part of a business combination. While we don’t agree with the Boards’ decisions to exclude them, we believe that all such items should be treated consistently and therefore do not object to these adjustments being excluded if the others are as well.

Question 19—Do you find stating the principles in bold type helpful? If not, why? Are there any paragraphs you believe should be in bold type, but are in plain type, or vice versa?

It is only marginally helpful. Our issues with the recently issued body of complex standards, which will include these two proposed standards if finalized as written, extend beyond the typefaces used and display of principles in a particular order. We recommend that further work be done to simplify the proposed standards.